

ALGONA MUNICIPAL UTILITIES
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

December 31, 2014

T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants

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OFFICIALS
ALGONA MUNICIPAL UTILITIES

December 31, 2014

<u>Title</u>	<u>Name of Official</u>	<u>Term Expires</u>
Chairman	Jay Geving	May 2015
Chairman Pro Tem	Walter Krahenbuhl	May 2017
Trustee	David Golwitzer	May 2018
Trustee	Karen Schaaf	May 2020
Trustee	Julie Murphy	May 2019
General Manager	John Bilsten	
Comptroller	Brien Rindone	



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Algona Municipal Utilities
Algona, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of Algona Municipal Utilities, a component unit of the City of Algona, Iowa as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of Algona Municipal Utilities, as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis, budgetary comparison information, and a schedule of funding progress for the retiree health plan* on pages 4-8 and 35-37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The comparative summaries of electric, water, and communication statistics, found on pages 38-40, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2015 on our consideration of the Algona Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Algona Municipal Utilities internal control over financial reporting and compliance.

JP Anderson & Company, P.C.

May 19, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Algona Municipal Utilities (AMU) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2014. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- ◆ AMU's operating revenues increased by 9%, or approximately \$1.38 million from calendar year 2013 to calendar year 2014.
- ◆ Operating expenses increased by 5%, or approximately \$872,000 in 2014 from 2013.
- ◆ AMU's net position decreased 2%, or approximately \$637,000 during 2014.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of AMU's financial activities.

Fund Financial Statements report AMU's operations by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of AMU's budget for the year.

The Other Supplementary Information in Schedules 1 through 3 is unaudited and provides detailed information about the usage levels of each utility.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Fund Financial Statements

AMU utilizes one kind of fund:

- 1) Proprietary funds account for AMU's enterprise funds. Enterprise Funds are used to report business type activities. AMU maintains three Enterprise Funds to provide separate information for the electric, water, and communications funds; all are considered to be major funds of the utility.

The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses and changes in fund net position and a statement of cash flows.

The condensed statement of net position, shown below, shows how assets and liabilities have changed from 2013 to 2014. Current assets (including restricted cash) increased approximately \$543,000 from 2013 to 2014, due several factors but primarily due to the increase in cash and cash equivalents. Total assets increased \$1.1 million while liabilities also increased by \$1.7 million resulting in a decrease in net position of approximately \$637,000 during the year.

Net Position of Business Type Activities (Expressed in Thousands)		
Year ended December 31,		
	2014	2013
Current and other assets	\$ 14,525	\$ 13,993
Capital assets (net of depreciation)	36,915	36,371
Total assets	51,440	50,364
Long-term debt outstanding	21,779	20,362
Other liabilities	4,768	4,473
Total liabilities	26,547	24,835
Net position:		
Net investment in capital assets	14,886	17,039
Restricted	2,259	2,281
Unrestricted	7,748	6,209
Total net position	\$ 24,893	\$ 25,529

INDIVIDUAL MAJOR FUND ANALYSIS

As AMU completed the year, its enterprise funds reported a combined fund balance of \$24.9 million, a decrease of approximately \$600,000 under last year's total of \$25.5 million. The following are the major reasons for the changes in fund net position of the major funds from the prior year:

- For the year, the Electric Fund total revenues were \$13.0 million, an increase of approximately \$1.1 million from 2013. Sales to customers actually increased about \$560,000, while the Sales for Resale increased \$589,000.

Operating expenses were up in 2014 by approximately \$928,000. The main areas of focus for the increases were purchased power related costs. The purchased power and transmission costs increased \$768,000 during 2014.

For the year the Electric Utility net position decreased \$671,000.

- At year end, the Water Fund had approximately \$1.1 million in total revenues which was virtually unchanged from 2013 total water revenue. The Water Fund's operating expenses for 2014 increased by \$33,000 to \$996,000. The operating expenses increased in 2014 due to normal operations.

The Water Utility net position decreased approximately \$20,000 in 2014.

- In the Communications Fund for the year, revenues increased by \$171,000 (\$3,378,000 in 2014 and \$3,207,000 – 2013). The customer counts are as follows: Cable – 1,785 and 1,858; Internet – 1,940 and 1,891; Telephone – 1,400 and 1,529; for the years ended December 31, 2014 and 2013, respectively. The fund's operating expense for the year was \$3,123,000, down from \$3,212,000 (a decrease of \$89,000). The decreased operating expenses were due mainly to a decrease in the Payment in Lieu of Taxes to the City of Algona. For the year, the fund showed an increase in net position of \$64,800.

The following analysis focuses on the change in net position for the combined divisions of AMU.

Changes in Net Position of Business Type Activities (Expressed in Thousands)		
	2014	2013
Revenues:		
Program revenues:		
Operating revenue	\$ 17,182	\$ 15,807
General revenues:		
Unrestricted investment earnings	133	138
Grant proceeds	116	202
Other general revenues	103	51
Total revenues	17,534	16,198
Program expenses:		
Business type activities	18,171	17,147
Total expenses	18,171	17,147
Increase (decrease) in net position	(637)	(949)
Net position beginning of year	25,530	26,479
Net position end of year	\$ 24,893	\$ 25,530

BUDGETARY HIGHLIGHTS

AMU did not exceed budgeted disbursements nor did they amend their budget during 2014.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets –

At December 31, 2014, AMU had approximately \$36.9 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is an increase (including additions and deletions net of depreciation) of approximately \$500,000, or 1 percent, over 2013.

Capital Assets of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2014	2013
Land	\$ 319	\$ 319
Construction in progress	9,205	8,239
Buildings and improvements	1,880	2,036
Equipment and vehicles	743	768
Infrastructure	24,768	25,010
Total	\$ 36,915	\$ 36,372

The largest additions to capital assets included continued capital improvements at Neal 4.

LONG TERM DEBT/LIABILITIES

At December 31, 2014, AMU had approximately \$20 million in revenue bonds outstanding.

Outstanding Revenue Bonds of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2014	2013
Revenue bonds	\$ 20,228	\$ 17,688
Total	\$ 20,228	\$ 17,688

AMU issued \$3,590,000 in electric revenue bonds in 2014 in addition to making all required principal and interest payments on revenue bonds outstanding at the beginning of the year.

At December 31, 2014 and 2013 the Communications Fund owed the Electric Fund \$3,440,000 under an interfund loan agreement established to finance the AMU broadband telecommunications network. The loan agreement calls for interest to accrue at 3.58% per year and to be repaid within 180 months.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Algona Municipal Utility's appointed officials consider many factors when setting the calendar year 2015 budget including fees that will be charged for the services the Utilities' provide, future expansions, and capital improvements.

These factors were taken into account when adopting the budget for fiscal year 2015. Amounts available for appropriation in the operating budget are \$18.6 million, an increase of 5 percent from the 2014 budget. The budget is likely to closer reflect the cash receipts received as estimated based on 2014 results and projected usage from customers. Budgeted disbursements are expected to decrease by approximately \$210,000. Again, the 2015 budget was set to more closely reflect the actual results as estimated based on 2014 results and expenditures on improvements to the Utility Infrastructure.

Algona Municipal Utilities takes pride in excellent customer service and high quality, reliable utilities. AMU strives every day to provide services at the lowest possible cost while constantly investing in infrastructure and technology. AMU's local employees make the difference in providing outstanding electric, water, and communications services. Some examples are listed below:

- Algona Municipal Utilities Electric and Communications continue to invest in necessary system improvements each year to enhance reliability, efficiency and safety.
- AMU continues expand the fiber to the premise system with plans to expand that system throughout the entire communications service territory in future years. The fiber system provides increased bandwidth to AMU customer/owners at a competitive price while enhancing economic development opportunities for the community.
- AMU finished the deployment of its Advanced Metering Infrastructure (AMI) through replacement of electric and water meters, and a new meter reading system. The new system will allow AMU to

provide customers more detailed usage information along with the ability to detect water leaks and electric outages on a timely basis. Algona Municipal Utilities benefited from its participation in a US Department of Energy (DOE) Grant through the Iowa Association of Municipal Utilities (IAMU) to help fund the project.

- Each year, the water distribution system replaces undersized water mains and continues to loop the distribution system. These improvements to the water distribution system increase fire protection, enhance water quality and provide increased water pressure and flow to a growing water distribution system. System improvements are also accomplished each year to serve new developments in Algona.
- The addition of a scrubber/baghouse and turbine upgrades at the George Neal Generating Station #4 reduce the environmental impact of the generating facility while extending the life of the plant another 25 years providing Algona a low cost generating resource with a reduced environmental footprint into the future.
- AMU installed new oxidation catalyst systems, continuous parameter monitoring systems, and associated components for the reduction of carbon monoxide concentrations in all four of the existing reciprocating internal combustion engines at our local plant. The installation decreased air emissions and reduced the plants environmental footprint.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of AMU's finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact management at 104 West Call Street in Algona.

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

PROPRIETARY FUNDS
STATEMENTS OF NET POSITION
DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2014	2013
Utility plant:		
Property and equipment	\$ 53,851,607	\$ 55,244,268
Less accumulated depreciation	(34,038,745)	(33,886,451)
	19,812,862	21,357,817
Construction in progress	9,177,130	7,384,977
Utility Plant - Net	28,989,992	28,742,794
Restricted funds		
Cash and cash equivalents	2,125,215	2,147,018
Short-term investments	368,828	308,431
	2,494,043	2,455,449
Current Assets:		
Cash and cash equivalents	3,905,731	2,261,407
Accounts receivable (net of allowance for doubtful accounts)	961,265	1,095,377
Unbilled usage	231,004	220,165
Accounts receivable -interfund	128,622	128,622
Inventory	1,178,746	1,616,809
Prepaid expenses	44,725	41,554
Accrued interest receivable	-	-
Accrued interest receivable - interfund loan	123,152	123,152
	6,573,245	5,487,086
Other assets:		
Investment in joint venture	175,662	175,662
Interfund loan receivable	3,440,000	3,440,000
Economic development loans receivable	488,981	514,899
	4,104,643	4,130,561
Total assets	\$ 42,161,923	\$ 40,815,890

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2014	2013	2014	2013	2014	2013
\$ 7,611,881	\$ 7,018,594	\$ 7,060,486	\$ 6,294,893	\$ 68,523,974	\$ 68,557,755
(3,121,305)	(3,156,822)	(3,653,933)	(3,382,770)	(40,813,983)	(40,426,043)
4,490,576	3,861,772	3,406,553	2,912,123	27,709,991	28,131,712
27,964	186,920	-	667,378	9,205,094	8,239,275
4,518,540	4,048,692	3,406,553	3,579,501	36,915,085	36,370,987
\$ 134,205	\$ 133,913	-	-	2,259,420	2,280,931
8,510	7,347	15,569	12,514	392,907	328,292
142,715	141,260	15,569	12,514	2,652,327	2,609,223
18,457	622,863	420,413	274,524	4,344,601	3,158,794
178,480	159,143	270,498	311,421	1,410,243	1,565,941
33,267	33,416	-	-	264,271	253,581
-	-	-	-	128,622	128,622
20,705	30,637	14,965	10,367	1,214,416	1,657,813
22,748	21,258	14,543	29,967	82,016	92,779
-	-	-	-	-	-
-	-	-	-	123,152	123,152
273,657	867,317	720,419	626,279	7,567,321	6,980,682
-	-	200,373	273,150	376,035	448,812
-	-	-	-	3,440,000	3,440,000
-	-	-	-	488,981	514,899
-	-	200,373	273,150	4,305,016	4,403,711
\$ 4,934,912	\$ 5,057,269	\$ 4,342,914	\$ 4,491,444	\$ 51,439,749	\$ 50,364,603

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

PROPRIETARY FUNDS
STATEMENTS OF NET POSITION - continued
DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2014	2013
Liabilities:		
Current liabilities:		
Accounts payable	\$ 264,045	\$ 1,214,583
Accounts payable - City of Algona	400,000	377,229
Accounts payable - interfund	-	-
Retainage and contracts payable	-	-
Accrued taxes	113,073	136,639
Accrued wages and compensated absences	323,455	281,136
Accrued interest payable	43,328	43,268
Deferred revenue	-	-
Revenue bonds payable	1,135,525	900,000
	<u>2,279,426</u>	<u>2,952,855</u>
Noncurrent liabilities		
Revenue bonds payable - net of current portion	15,647,734	12,995,000
Interfund loan - payable	-	-
Other long-term debt	327,126	377,713
Accrued OPEB	235,870	196,642
	<u>16,210,730</u>	<u>13,569,355</u>
Other liabilities		
Deferred compensation liability	368,828	308,431
	<u>368,828</u>	<u>308,431</u>
Total liabilities	<u>18,858,984</u>	<u>16,830,641</u>
Fund Net Position		
Net investment in capital assets	11,879,607	14,470,081
Restricted	2,125,215	2,147,018
Unrestricted (deficit)	9,298,117	7,368,150
Total net position	<u>\$ 23,302,939</u>	<u>\$ 23,985,249</u>
Total liabilities and net position	<u>\$ 42,161,923</u>	<u>\$ 40,815,890</u>

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2014	2013	2014	2013	2014	2013
60,587	\$ 102,414	\$ 120,288	\$ 112,167	\$ 444,920	\$ 1,429,164
45,000	42,857	67,437	138,837	512,437	558,923
-	-	128,622	128,622	128,622	128,622
28,730	-	-	-	28,730	-
3,497	2,484	45,621	58,321	162,191	197,444
58,174	51,537	88,709	79,969	470,338	412,642
2,859	2,984	123,152	123,152	169,339	169,404
-	-	206,581	180,450	206,581	180,450
111,294	75,000	1,398,260	182,518	2,645,079	1,157,518
310,141	277,276	2,178,670	1,004,036	4,768,237	4,234,167
1,000,000	1,080,000	207,153	1,614,358	16,854,887	15,689,358
-	-	3,440,000	3,440,000	3,440,000	3,440,000
401,060	462,986	-	-	728,186	840,699
38,131	33,055	88,606	72,430	362,607	302,127
1,439,191	1,576,041	3,735,759	5,126,788	21,385,680	20,272,184
8,510	7,347	15,569	12,514	392,907	328,292
1,757,842	1,860,664	5,929,998	6,143,338	26,546,824	24,834,643
3,006,186	2,430,706	-	139,501	14,885,793	17,040,288
134,205	133,913	-	-	2,259,420	2,280,931
36,679	631,986	(1,587,084)	(1,791,395)	7,747,712	6,208,741
\$ 3,177,070	\$ 3,196,605	\$ (1,587,084)	\$ (1,651,894)	\$ 24,892,925	\$ 25,529,960
\$ 4,934,912	\$ 5,057,269	\$ 4,342,914	\$ 4,491,444	\$ 51,439,749	\$ 50,364,603

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

PROPRIETARY FUNDS
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION

DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2014	2013
Operating revenues:		
Sale of electricity:		
Residential and commercial	\$ 9,161,643	\$ 8,621,514
Sales for resale	3,176,653	2,587,362
Service provided to City of Algona	35,771	35,856
Sales to other utilities	125,793	117,132
Sale of water	-	-
Cable TV fees	-	-
Internet fees	-	-
Telephone service	-	-
Cell phone revenue	-	-
Miscellaneous and merchandising	234,497	181,206
Return from investment in AMU-Skylink LC	-	-
Total operating revenue	12,734,357	11,543,070
Operating expenses:		
Generation and power purchased	8,909,025	8,269,671
Transmission-distribution maintenance	510,776	381,202
Meter reading supplies and labor	131,466	139,061
Sales	49,916	37,951
General and other	839,709	785,030
Administration and general	433,038	351,337
Rebates and other expenses	106,006	173,214
Merchandise, jobbing and construction	12,530	8,720
Property tax and insurance	192,992	224,400
Depreciation	1,527,114	1,463,635
Services provided to the City of Algona	10,116	16,984
Payment in lieu of taxes	400,000	343,261
Source of supply	-	-
Maintenance of mains, services and meters	-	-
Maintenance of distribution and equipment	-	-
Headend programming	-	-
Customer accounts	-	-
Total operating expenses	13,122,688	12,194,466
Income from operations	\$ (388,331)	\$ (651,396)

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2014	2013	2014	2013	2014	2013
\$ -	\$ -	\$ -	\$ -	\$ 9,161,643	\$ 8,621,514
-	-	-	-	3,176,653	2,587,362
-	-	-	-	35,771	35,856
-	-	-	-	125,793	117,132
1,029,162	1,040,062	-	-	1,029,162	1,040,062
-	-	1,354,062	1,127,859	1,354,062	1,127,859
-	-	976,930	868,734	976,930	868,734
-	-	973,814	1,097,994	973,814	1,097,994
-	-	60,736	53,281	60,736	53,281
40,488	17,469	85,377	100,339	360,362	299,014
-	-	(72,777)	(41,135)	(72,777)	(41,135)
1,069,650	1,057,531	3,378,142	3,207,072	17,182,149	15,807,673
-	-	-	-	8,909,025	8,269,671
-	-	-	-	510,776	381,202
-	-	-	-	131,466	139,061
-	-	-	-	49,916	37,951
-	-	-	-	839,709	785,030
275,869	256,621	710,402	684,065	1,419,309	1,292,023
-	-	-	-	106,006	173,214
29,346	23,161	68,353	63,152	110,229	95,033
-	-	71,390	82,372	264,382	306,772
227,800	195,606	330,379	345,737	2,085,293	2,004,978
201	244	173	-	10,490	17,228
45,000	42,858	67,437	135,326	512,437	521,445
192,220	258,478	-	-	192,220	258,478
173,286	133,352	-	-	173,286	133,352
-	-	214,435	215,681	214,435	215,681
-	-	1,497,203	1,544,156	1,497,203	1,544,156
52,594	52,580	163,581	141,707	216,175	194,287
996,316	962,900	3,123,353	3,212,196	17,242,357	16,369,562
\$ 73,334	\$ 94,631	\$ 254,789	\$ (5,124)	\$ (60,208)	\$ (561,889)

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

PROPRIETARY FUNDS
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION - continued

DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2014	2013
Non-operating income and (expense)		
Interest income	\$ 132,415	\$ 136,277
Interest expense	(447,341)	(466,522)
Debt issuance costs	(72,430)	-
Grant income	116,439	202,007
Miscellaneous	65,587	6,290
Donations	(55,965)	(50,091)
Gain (loss) on disposition of assets	(32,684)	14,576
Total non-operating income (expense)	(293,979)	(157,463)
Income(loss) before other revenues, expenses and transfers	(682,310)	(808,859)
Net position, beginning	23,985,249	24,794,108
Net position, ending	\$ 23,302,939	\$ 23,985,249

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2014	2013	2014	2013	2014	2013
\$ 536	\$ 720	\$ 276	\$ 558	\$ 133,227	\$ 137,555
(44,646)	(47,898)	(193,630)	(202,299)	(685,617)	(716,719)
-	-	-	-	(72,430)	-
-	-	-	-	116,439	202,007
34,346	40,371	3,375	4,328	103,308	50,989
-	(1,155)	-	-	(55,965)	(51,246)
(83,105)	650	-	(24,735)	(115,789)	(9,509)
(92,869)	(7,312)	(189,979)	(222,148)	(576,827)	(386,923)
(19,535)	87,319	64,810	(227,272)	(637,035)	(948,812)
3,196,605	3,109,286	(1,651,894)	(1,424,622)	25,529,960	26,478,772
\$ 3,177,070	\$ 3,196,605	\$ (1,587,084)	\$ (1,651,894)	\$ 24,892,925	\$ 25,529,960

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS
DECEMBER 31:

	ENTERPRISE	
	ELECTRIC	
	2014	2013
Cash flows from operating activities:		
Cash receipts from customers	\$ 12,458,526	\$ 10,706,228
Cash receipts from interfund services	207,196	306,331
Other operating cash receipts	191,908	136,412
Cash payments to suppliers	(10,711,399)	(9,934,701)
Cash payments to employees	(1,319,069)	(1,315,761)
Cash payments for interfund services	-	-
Net cash provided (used) by operating activities	827,162	(101,491)
Cash flows from noncapital financing activities:		
Donations	(55,965)	(50,091)
Net cash (used) by noncapital financing activities	(55,965)	(50,091)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,799,203)	(5,325,447)
Repayment of long term debt	(925,062)	(870,000)
Proceeds from note issuances	3,683,098	382,443
Repayment of note payable	-	(4,730)
Grant received	116,439	202,007
Proceeds from sale of assets	-	18,548
Cash payments for interest	(447,281)	(481,393)
Net cash provided (used) by capital and related financing activities	627,991	(6,078,572)
Cash flows from investing activities:		
Interest received during the year	132,415	135,943
Principal received on economic development loan	99,918	104,112
Additional investment AMU-Skylink	-	-
Issuance of new economic development loans	(74,000)	-
Miscellaneous income	65,000	6,289
Net cash provided (used) by investing activities	\$ 223,333	\$ 246,344

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2014	2013	2014	2013	2014	2013
\$ 1,080,164	\$ 971,429	\$ 3,517,400	\$ 3,196,486	\$ 17,056,090	\$ 14,874,143
-	-	-	-	207,196	306,331
-	-	513	3,951	192,421	140,363
(515,170)	(292,964)	(2,276,305)	(2,280,109)	(13,502,874)	(12,507,774)
(194,260)	(190,978)	(428,224)	(456,322)	(1,941,553)	(1,963,061)
(78,574)	(177,709)	(128,622)	(128,622)	(207,196)	(306,331)
292,160	309,778	684,762	335,384	1,804,084	543,671
-	(1,155)	-	-	(55,965)	(51,246)
-	(1,155)	-	-	(55,965)	(51,246)
(776,156)	(583,195)	(157,432)	(686,681)	(2,732,791)	(6,595,323)
(110,000)	(75,000)	(191,462)	(182,797)	(1,226,524)	(1,127,797)
-	467,431	-	-	3,683,098	849,874
-	(4,445)	-	-	-	(9,175)
-	-	-	-	116,439	202,007
-	650	-	12,525	-	31,723
(45,000)	(48,019)	(193,630)	(202,633)	(685,911)	(732,045)
(931,156)	(242,578)	(542,524)	(1,059,586)	(845,689)	(7,380,736)
536	720	276	558	133,227	137,221
-	-	-	-	99,918	104,112
-	-	-	(100,000)	-	(100,000)
-	-	-	-	(74,000)	-
34,346	40,371	3,375	4,328	102,721	50,988
\$ 34,882	\$ 41,091	\$ 3,651	\$ (95,114)	\$ 261,866	\$ 192,321

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

**PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS - continued
DECEMBER 31:**

	ENTERPRISE	
	ELECTRIC	
	2014	2013
Net increase (decrease) in cash and cash equivalents	\$ 1,622,521	\$ (5,983,810)
Cash and cash equivalents-beginning of year	4,408,425	10,392,235
Cash and cash equivalents-end of year	6,030,946	4,408,425
Restricted funds	2,125,215	2,147,018
Current assets	3,905,731	2,261,407
	6,030,946	4,408,425
Reconciliation of operating income to net cash provided by operating activities:		
Income (loss) from operations	(388,331)	(651,396)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,527,114	1,463,635
Loss (gain) from investment in AMU-Skylink LC	-	-
Change in accounts receivable	134,112	(281,466)
Change in unbilled usage	(10,839)	(35,891)
Change in prepaid expenses	(3,171)	3,111
Change in inventory	438,063	(316,172)
Change in accounts payable and retainages payable	(927,767)	(333,660)
Change in accrued taxes	(23,566)	2,966
Change in accrued wages and compensated absences	42,319	8,154
Change in deferred revenue	-	-
Change in OPEB liability	39,228	39,228
Net cash provided by operating activities	\$ 827,162	\$ (101,491)

See Notes to Financial Statements

FUNDS					
WATER		COMMUNICATIONS		TOTAL	
2014	2013	2014	2013	2014	2013
\$ (604,114)	\$ 107,136	\$ 145,889	\$ (819,316)	\$ 1,164,296	\$ 91,690
756,776	649,640	274,524	1,093,840	5,439,725	1,264,306
152,662	756,776	420,413	274,524	6,604,021	5,439,725
134,205	133,913	-	-	2,259,420	2,280,931
18,457	622,863	420,413	274,524	4,344,601	3,158,794
152,662	756,776	420,413	274,524	6,604,021	5,439,725
73,334	94,631	254,789	(5,124)	(60,208)	(561,889)
227,800	195,606	330,379	345,737	2,085,293	2,004,978
-	-	72,777	41,135	72,777	41,135
(19,337)	(84,406)	40,923	(43,570)	155,698	(409,442)
149	(1,695)	-	-	(10,690)	(37,586)
(1,490)	944	15,424	(7,539)	10,763	(3,485)
9,932	4,286	(4,598)	1,144	443,397	(310,742)
(10,954)	91,825	(63,279)	(8,898)	(1,002,000)	(250,733)
1,013	(896)	(12,700)	(4,347)	(35,253)	(2,277)
6,637	4,408	8,740	871	57,696	13,433
-	-	26,131	(200)	26,131	(200)
5,076	5,076	16,176	16,176	60,480	60,480
\$ 292,160	\$ 309,778	\$ 684,762	\$ 335,384	\$ 1,804,084	\$ 543,671

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Algona Municipal Utilities (AMU) is a component unit of the City of Algona whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City of Algona is a political subdivision of the State of Iowa located in Kossuth County. It was first incorporated in 1872 and operates under the Home Rule provisions of the Constitution of Iowa. AMU Board of Trustees operates the Utilities by the authority of Chapters 384 and 388 of the Code of Iowa. AMU provides electric, water, cable television, internet, telephone, cell phone sales and service, and data services on a user charge basis to the general public and other governmental units within Kossuth County, Iowa.

A. Reporting Entity

For financial reporting purposes, AMU has included all funds, organizations, agencies, boards, commissions and authorities. AMU has also considered all other potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with AMU are such that exclusion would cause AMU's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of AMU to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on AMU. AMU has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

AMU reports the following major proprietary funds:

Enterprise:

The Electric Fund is used to account for the operation and maintenance of AMU's electric system.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

The Water Fund is used to account for the operation and maintenance of AMU's water system.

The Communications Fund is used to account for the cable television, internet, telephone, cellular service, and data services systems.

C. Measurement Focus and Basis of Accounting

AMU maintains its financial records on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

AMU applies all applicable GASB pronouncements, as well as Financial Accounting Standards Board pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of AMU are charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

E. Utility Plant and Depreciation

The utility plant is stated at original cost when first devoted to public service. Expenditures for additions and betterments (including labor charges) are capitalized, while expenditures for repairs and maintenance are charged to

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

NOTES TO FINANCIAL STATEMENTS

operations as incurred. The costs of assets retired or sold and the related accumulated depreciation are eliminated from the accounts in the year of disposal, with the resulting gain or loss credited or charged to operations. The straight-line method is used for computing depreciation with estimated useful lives ranging from two to fifty years.

F. Revenue, Unbilled Usage, Deferred Revenue, and Accounts Receivable

Revenues are based on billing rates applied to customers' consumption. Unbilled usage represents revenues based upon estimated consumption for the period between the last billing dates at the end of the year. Deferred revenue represents amounts billed for cable television, internet, telephone, and data services that had not yet been delivered at the end of the year. The allowance method is used to account for uncollectible accounts receivable. AMU charges 1.5% per month on past due accounts.

The Communications Utility also has receivables from Carrier Access Billing (CABS) that are separate from customer charges. As of December 31, 2014 and 2013, \$292,316 and \$270,153 in (CABS) receivables were older than 90 days.

The balance of the allowance for doubtful accounts as of December 31 2014 and 2013 were as follows:

	<u>Electric</u>	<u>Water</u>	<u>Communications</u>
December 31, 2014	\$ 36,000	\$ 4,200	\$ 235,000
December 31, 2013	\$ 32,400	\$ 3,275	\$ 155,650

G. Inventory

Inventory is valued at the lower of cost or market. Cost is determined on a first-in, first-out method for materials and supplies, and the average cost method for fuel.

H. Joint Plant Ownership

Neal 4 Generating System - The Utility is one of fourteen owners of Unit 4 George Neal Generating Station which is managed by MidAmerican Energy.

ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

The Utility owns a 2.937% undivided ownership interest of the generating station for generating, purchasing, obtaining by exchange, or otherwise acquiring or transmitting electric power and energy. The Utility has recorded its share of the costs as capital assets and inventory in the Electric Fund.

Lehigh-Webster Transmission System - The Utility is one of fifteen owners of Lehigh-Webster Transmission System which is managed by Algona Municipal Utilities. The Utility owns a 4.18% undivided ownership interest of the transmission system. The Utility has recorded its share of the costs as capital assets in the Electric Fund.

Iowa Distributed Wind Generation Project (IDWGP) - The Utility is one of seven owners of IDWGP, a project with three 750KW wind turbine generators, which is managed by Algona Municipal Utilities. The Utility owns a 11.1% undivided ownership interest in IDWGP. The Utility has recorded its share of the costs as capital assets in the Electric Fund.

I. Interest Capitalization

AMU capitalizes interest costs incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is written off over the asset's estimated useful life.

J. Net Position

Net position reflects the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the financial statements. Net position invested in capital assets, net of related debt consists of capital assets net of related accumulated depreciation, reduced by the balance of long term debt used to acquire or construct those assets. Net position is reported as restricted when there are limitations placed on their use through external restrictions imposed by creditors, grantors, or laws and regulations increased by unspent debt proceeds of bonds issuance net of related debt. Unrestricted net position consists of net position that does not meet the definition of invested in capital assets net of related debt or restricted.

AMU's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

K. Rate Matters

The rates charged by AMU are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

M. Cash and Cash Equivalents

For the purpose of the statement of cash flows, AMU considers all highly liquid debt instruments purchased with a maturity of less than three months to be cash equivalents.

N. Contracts

AMU joined, through a contractual agreement, the North Iowa Municipal Electric Cooperative Association (NIMECA) in 2009. NIMECA is a cooperative consisting of 12 member municipalities that consolidates the electric resources of its members and serves as a joint power supply.

NOTE 2 - CASH AND INVESTMENTS

AMU's deposits at December 31, 2014 and 2013 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

AMU is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by AMU's Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district.

AMU's investments are categorized to give an indication of the level of risk assumed by AMU at year-end. AMU's investments are all category 1, which means that the investments are insured or registered or the securities are held by AMU or its agent in AMU's name.

AMU had investments in the Iowa Public Agency Investments Trust at December 31, 2014 and 2013 of approximately \$361,900, which are valued at amortized cost pursuant

ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Credit Risk – The Electric Utility had \$-0- and \$3,014,299 included as cash on the Statement of Net Position at December 31, 2014 and 2013 that was held in a money market rated AAA by Standard & Poors.

Interest rate risk – The Utilities’ investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utilities. Reconciliation of the Utilities’ cash and cash equivalents and temporary cash and investments for the years ended December 31, 2014 and 2013 is as follows:

December 31, 2014				
	Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents				
Restricted	2,125,215	134,205	-	2,259,420
Current assets	3,905,731	18,457	420,413	4,344,601
	6,030,946	152,662	420,413	6,604,021
Investments				
Restricted	368,828	8,510	15,569	392,907
	368,828	8,510	15,569	392,907
Total cash and cash equivalents and investments	\$ 6,399,774	161,172	435,982	\$ 6,996,928

December 31, 2013				
	Electric Utility	Water Utility	Communications Utility	Total
Cash and cash equivalents				
Restricted	2,147,018	133,913	-	2,280,931
Current assets	2,261,407	622,863	274,524	3,158,794
	4,408,425	756,776	274,524	5,439,725
Investments				
Restricted	308,431	7,347	12,514	328,292
	308,431	7,347	12,514	329,292
Total cash and cash equivalents and investments	\$ 4,716,856	764,123	287,038	\$ 5,768,017

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – INTERFUND LOAN

Management authorized interfund loans from the Electric Fund to the Communications Fund not to exceed \$5,540,000 dedicated to finance the construction of the AMU broadband telecommunications network. All monies transferred shall be repaid to the originating account within 180 months with interest at the rate of 3.58% per annum. As of December 31, 2014 and 2013 the outstanding balance on the interfund loan was \$3,440,000.

This interfund loan is reflected on the Electric Department Balance Sheet as an Other Asset. It is reflected on the Communication Department Balance Sheet as a Noncurrent Liability. Accrued interest as of December 31, 2014 and 2013 of \$123,152 and \$123,152 is also reflected on the Electric Department Balance Sheet as Accrued Interest Receivable – Interfund Loan and the Communication Department Balance Sheet as Accrued Interest Payable - Interfund Loan.

NOTE 4 – USDA ECONOMIC DEVELOPMENT LOAN FUND

In conjunction with the USDA (United States Rural Development), AMU has established a revolving loan fund. The funding for the program came from two separate \$300,000 grants from the USDA supplemented by \$120,000 of matching funds provided by AMU.

This program has made multiple loans to local charitable organizations/governmental organizations to assist in furthering economic development in the Algona area. As of December 31, 2014 and 2013 notes receivable under this program amounted to \$488,981 and \$514,895.

NOTE 5 – REVENUE BONDS PAYABLE

The following is a summary of changes in revenue bond debt for the years ended December 31, 2014 and 2013.

Electric Utility:

	Balance 1/1/14	Issued	Repaid	Balance 12/31/14
Business type activities:				
Revenue Bonds – Series 2008	\$ 320,000	-	\$ 320,000	\$ -
Revenue Bonds – Series 2011	13,575,000	-	580,000	12,995,000
Revenue Bonds – Series 2014	-	3,590,000	-	3,590,000
	<u>13,895,000</u>	<u>3,590,000</u>	<u>900,000</u>	<u>16,585,000</u>

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

NOTES TO FINANCIAL STATEMENTS

The Electric Revenue Bonds – Series 2014 were issued at a premium. The unamortized premium is being amortized over the life of the bonds. The unamortized premium as of December 31, 2014 was \$172,734.

	Balance 1/1/13	Issued	Repaid	Balance 12/31/13
Business type activities:				
Revenue Bonds – Series 2008	\$ 845,000	-	\$ 525,000	\$ 320,000
Revenue Bonds – Series 2011	13,920,000	-	345,000	13,575,000
	14,765,000	-	870,000	13,895,000

Water Utility:

	Balance 1/1/14	Issued	Repaid	Balance 12/31/14
Business type activities:				
Revenue Bonds – issued October 5, 2010	\$ 1,115,000	-	75,000	\$1,080,000
	\$ 1,115,000	-	75,000	\$ 1,080,000

	Balance 1/1/13	Issued	Repaid	Balance 12/31/13
Business type activities:				
Revenue Bonds – issued October 5, 2010	\$ 1,230,000	-	75,000	\$1,155,000
	\$ 1,230,000	-	75,000	\$ 1,115,000

Communications Utility:

	Balance 1/1/14	Issued	Repaid	Balance 12/31/14
Business type activities:				
Revenue Bonds–Series 2005	277,319	-	34,192	243,127
Revenue Bonds–Series 2010	1,519,556	-	157,270	1,362,286
	1,796,875	-	191,462	1,605,413

	Balance 1/1/13	Issued	Repaid	Balance 12/31/13
Business type activities:				
Revenue Bonds–Series 2005	309,956	-	32,637	277,319
Revenue Bonds–Series 2010	1,669,716	-	150,160	1,519,556
	1,979,672	-	182,797	1,796,875

Annual debt service requirements to maturity for the revenue bonds are as follows:

ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

Year Ending December 31,	Electric Series 2014 Interest 2.0%-4.00%		Electric Series 2011 Interest 2.0%-4.0%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	190,000	111,585	920,000	408,338	1,110,000	519,923
2016	200,000	112,300	940,000	389,938	1,140,000	502,238
2017	205,000	108,300	960,000	371,138	1,165,000	479,438
2018	210,000	104,200	985,000	349,538	1,195,000	453,738
2019	215,000	100,000	1,010,000	324,912	1,225,000	424,912
2020-2024	1,170,000	398,600	5,610,000	1,133,090	6,780,000	1,531,690
2025-2026	1,400,000	172,000	2,570,000	155,200	3,970,000	327,200
	3,590,000	1,106,985	12,995,000	3,132,154	16,585,000	4,239,139

Year Ending December 31,	Communications Series 2005 Interest 5.09%		Communications Series 2010 Interest 5.45%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	35,974	11,685	1,362,286	51,887	1,398,260	63,572
2016	37,848	9,811	-	-	37,848	9,811
2017	39,820	7,839	-	-	39,820	7,839
2018	41,895	5,764	-	-	41,895	5,764
2019	44,078	3,581	-	-	44,078	3,581
2020	43,512	1,285	-	-	43,512	1,285
	243,127	39,965	1,362,286	51,887	1,605,413	91,852

Years Ending December 31:	Water Series 2010	
	Principal	Interest
2015	80,000	34,302
2016	85,000	32,702
2017	85,000	30,790
2018	90,000	28,665
2019	95,000	26,190
2019-2023	525,000	82,710
2024-2025	120,000	4,680
	1,080,000	240,039

The resolutions providing for the issuance of the revenue bonds include the following provisions:

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NOTES TO FINANCIAL STATEMENTS

Series 2014 and 2011 Electric Revenue Bonds:

- A. The bonds will only be redeemed from the earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to the Electric Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- C. A reserve fund shall be established and maintained at a level equal to or less than \$1,678,804. The reserve was fully funded at December 31, 2014 and 2013.
- D. Rates are to be established sufficient to produce "Net Revenues" of not less than 125% of the principal and interest due on the bonds.

Series 2010 Water Revenue Bonds:

- A. Sufficient monthly transfers shall be made to the Water Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- B. A reserve fund shall be established and maintained at a level equal to or less than \$124,680. The reserve was fully funded at December 31, 2014 and 2013.
- C. Rates are to be established sufficient to produce "Net Revenues" of not less than 125% of the principal and interest requirements on the bonds.

Series 2005 and 2010 Communications Revenue Bonds:

- A. Sufficient monthly transfers shall be made to the Communications Revenue Bond Sinking Fund for the purpose of making the note principal and interest payments when due.
- B. Rates are to be established sufficient to produce "Net Revenues" of not less than 110% of the principal and interest requirements on the bonds.

NOTE 6 –ENERGY MANAGEMENT IMPROVEMENT LOAN

AMU has financed certain energy efficiency and renewable energy improvement projects through a loan agreement with the Iowa Association of Municipal Utilities (IAMU). On October 1, 2013, AMU executed an agreement with IAMU to borrow \$849,874 to make distribution system improvements that reduce line losses and facilitate the implementation of smart grid measures. This note is split 55% and 45% between the water and electric funds, respectively.

Annual debt service requirements for this loan are as follows:

**ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

Year Ending December 31,	Electric/Water Interest 2.0%	
	Principal	Interest
2015	56,819	15,181
2016	57,966	14,034
2017	59,136	12,864
2018	60,329	11,671
2019	61,547	10,453
2020-2024	326,885	33,121
2025-2026	162,329	3,913
	<u>785,005</u>	<u>101,237</u>

NOTE 7 – INTEREST COSTS

During the years ended December 31, 2014 and 2013, the interest incurred and expensed by the Electric Fund was \$447,341 and \$466,522 respectively.

During the years ended December 31, 2014 and 2013, the interest incurred by the Communication Fund was \$193,630 and \$202,299 respectively. The Electric Fund recognized interest income of \$123,489 and \$123,152 from the interfund loan during 2014 and 2013.

NOTE 8 – RESTRICTED FUNDS

As of December 31, 2014 Restricted Funds consisted of the following.

	Electric	Water	Communication	Total
Bond Sinking	214,847	9,525	-	224,372
Bond Reserve	1,678,800	124,680	-	1,803,480
Revolving loan fund	231,568	-	-	231,568
Deferred Compensation	368,828	8,510	15,569	392,907
	<u>2,494,043</u>	<u>142,715</u>	<u>15,569</u>	<u>2,652,327</u>

As of December 31, 2013 Restricted Funds consisted of the following.

	Electric	Water	Communication	Total
Bond Sinking	111,062	9,233	-	120,295
Bond Reserve	1,362,800	124,680	-	1,487,480

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

Unspent Bond proceeds	468,025	-	-	468,025
Revolving loan fund	205,131	-	-	205,131
Deferred Compensation	308,431	7,347	12,514	328,292
	<u>2,455,449</u>	<u>141,260</u>	<u>12,514</u>	<u>2,609,223</u>

The Bond Funds are restricted as stated in Note 5. The deferred compensation fund assets are maintained in a 457(b) plan.

NOTE 9 - PENSION AND RETIREMENT BENEFITS

AMU contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.95% of their annual salary and AMU is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by state statute. AMU's contributions to IPERS for the years ended December 31, 2014, 2013, and 2012, were \$192,060, \$184,783, and \$171,132 respectively, equal to the required contributions for each year.

NOTE 10 - TRANSFERS TO CITY IN LIEU OF PROPERTY TAXES

By resolution of AMU's Board of Trustees, the Utility may make an annual Payment in Lieu of Taxes (PILOT) to the City of Algona.

For the years ended December 31, 2014 and 2013, payments in lieu of taxes to the City of Algona by fund were as follows:

	<u>2014</u>	<u>2013</u>
Electric Fund	400,000	343,261
Water Fund	45,000	42,858
Communications Fund	67,437	135,326
	<u>512,437</u>	<u>521,445</u>

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

NOTE 11 – RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three calendar years. The Utility assumes liability for any deductibles and claims in excess of coverage limitations.

NOTE 12 - JOINT VENTURES

AMU has a 15% ownership interest in the Iowa Public Power Agency (IPPA). IPPA was formed under Iowa Code chapter 28E for the purpose of enabling smaller municipal utilities to own an interest in electric transmission lines. AMU's total equity position at December 31, 2014 and 2013 is approximately \$175,662 (classified as Investment in Joint Venture on the statement of net position). This funding was to assist the IPPA purchase a \$3.5 million share in a transmission line project, in partnership with MidAmerican Energy. Audited statements for the IPPA are available upon request at the AMU business office.

Condensed financial information for IPPA as of December 31, 2014 and 2013 is as follows:

	December 31, 2014	December 31, 2013
Total assets	\$ 3,608,926	\$ 3,699,952
Total liabilities	2,821,992	2,805,000
Member equity	786,934	771,944
	\$ 3,608,926	\$ 3,805,083
Revenues	661,312	650,565
Expenses	(296,324)	(305,449)
Change in net position	\$ 364,988	\$ 345,116

AMU also has a 50% ownership interest in AMU-Skylink LC (an LLC). AMU-Skylink LC is a LLC with a private for-profit member that has constructed a tower to provide Algona residents with wireless telephone access. AMU's investment in AMU-Skylink LC is reported as an Investment in Joint Venture on the Communication Fund balance sheet and is valued at \$200,373 and \$273,150 as of

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013. Audited statements for AMU-Skylink LC are available upon request at the AMU business office.

Condensed financial information for AMU-Skylink LC as of December 31, 2014 and 2013 is as follows:

	December 31, 2014	December 31, 2013
Total assets	\$ 474,349	\$ 625,187
Total liabilities	79,116	78,885
Member equity	395,233	546,302
	\$ 474,349	\$ 625,187
Revenues	233,350	306,235
Expenses	(384,419)	(388,573)
Net income	\$ (151,069)	\$ (82,271)

NOTE 13 – COMPENSATED ABSENCES

AMU employees accumulate a limited amount of earned but unused vacation. The Utilities' approximate liability for earned vacation payments payable to employees at December 31, 2014 and 2013 is as follows:

Type of Benefit	Electric	Water	Communications	Total
December 31, 2014: Vacation	\$ 86,853	12,371	20,462	\$ 119,686
December 31, 2013: Vacation	\$ 82,382	12,059	18,709	\$ 113,150

NOTE 14 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2014 and 2013 was as follows:

	2014			
	Electric Fund			
Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 256,366	-	-	\$ 256,366
Construction in progress	7,514,461	1,662,669	-	9,177,130
	7,770,827	1,662,669	-	9,433,496
Capital assets being depreciated:				
Buildings and improvements	2,799,436	-	-	2,799,436
Equipment and vehicles	2,268,124	168,252	20,054	2,416,322
Infrastructure	49,790,858	-	1,411,375	48,379,483
Total capital assets being depreciated	54,858,418	168,252	1,431,429	53,595,241

ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA

NOTES TO FINANCIAL STATEMENTS

Less accumulated depreciation for:				
Buildings and improvements	1,004,344	68,072	-	1,072,416
Equipment and vehicles	1,789,144	113,451	20,025	1,882,570
Infrastructure, road network	31,092,963	1,345,591	1,354,795	31,083,759
Total accumulated depreciation	<u>33,886,451</u>	<u>1,527,114</u>	<u>1,374,820</u>	<u>34,038,745</u>
Total capital assets being depreciated, net	<u>20,622,749</u>			<u>19,556,496</u>
Total capital assets, net	<u>\$28,742,794</u>			<u>\$28,989,992</u>

Water Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 12,306	-	-	\$ 12,306
Construction in progress	186,920	27,964	186,920	27,964
	<u>199,226</u>	<u>27,964</u>	<u>186,920</u>	<u>40,270</u>
Capital assets being depreciated:				
Equipment and vehicles	306,829	68,107	-	374,933
Infrastructure	6,699,459	874,290	33,864	7,224,642
Total capital assets being depreciated	<u>7,006,288</u>	<u>942,397</u>	<u>33,864</u>	<u>7,599,575</u>
Less accumulated depreciation for:				
Equipment and vehicles	210,971	30,561	-	241,532
Infrastructure, road network	2,945,851	197,239	30,853	2,879,773
Total accumulated depreciation	<u>3,156,822</u>	<u>227,800</u>	<u>30,853</u>	<u>3,121,305</u>
Total capital assets being depreciated, net	<u>3,849,466</u>			<u>4,478,270</u>
Business type activities capital assets, net	<u>\$ 4,048,692</u>			<u>4,518,540</u>

Communications Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 49,635	-	-	\$ 49,635
Construction in progress	667,378	-	667,378	-
	<u>717,013</u>	<u>-</u>	<u>667,378</u>	<u>49,635</u>
Capital assets being depreciated:				
Buildings and improvements	271,793	-	-	271,793
Equipment and vehicles	221,523	12,901	-	234,424
Infrastructure	5,751,942	811,907	59,215	6,504,634
Total capital assets being depreciated	<u>6,245,258</u>	<u>824,808</u>	<u>59,215</u>	<u>7,010,851</u>
Less accumulated depreciation for:				
Buildings and improvements	109,237	9,971	-	119,208
Equipment and vehicles	137,702	19,799	-	157,501
Infrastructure, road network	3,135,831	300,609	59,216	3,377,224

ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

Total accumulated depreciation	3,382,770	330,379	59,216	3,653,933
Total capital assets being depreciated, net	2,862,488			3,356,918
Business type activities capital assets, net	\$ 3,579,501			\$ 3,406,553

2013

Electric Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 256,366	-	-	\$ 256,366
Construction in progress	4,928,990	2,455,987	-	7,384,977
	5,185,356	2,455,987	-	7,641,343
Capital assets being depreciated:				
Buildings and improvements	2,799,436	-	-	2,799,436
Equipment and vehicles	2,256,718	20,183	28,264	2,256,718
Infrastructure	47,204,551	2,860,183	82,428	47,204,551
Total capital assets being depreciated	52,260,705	2,880,366	110,692	52,260,705
Less accumulated depreciation for:				
Buildings and improvements	936,071	68,273	-	1,004,344
Equipment and vehicles	1,660,119	137,802	8,777	1,789,144
Infrastructure, road network	29,977,574	1,257,560	142,171	31,092,963
Total accumulated depreciation	32,573,764	1,463,635	150,948	33,886,451
Total capital assets being depreciated, net	19,686,941			21,101,451
Total capital assets, net	\$24,872,297			\$28,742,794

Water Fund

Proprietary Activities	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 12,306	-	-	\$ 12,306
Construction in progress	45,946	140,974	-	186,920
	58,252	140,974	-	199,226
Capital assets being depreciated:				
Equipment and vehicles	292,557	14,273	-	306,829
Infrastructure	6,302,366	430,957	33,864	6,699,459
Total capital assets being depreciated	6,594,923	445,230	33,864	7,006,288
Less accumulated depreciation for:				
Equipment and vehicles	181,733	29,971	-	210,971
Infrastructure, road network	2,810,336	165,635	30,853	2,945,851
Total accumulated depreciation	2,992,069	195,606	30,853	3,156,822
Total capital assets being depreciated, net	3,602,854			3,849,466

NOTES TO FINANCIAL STATEMENTS

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

NOTES TO FINANCIAL STATEMENTS

2017	128,622
2018	128,622
2019	128,622
2020-2024	643,110
2025-2029	643,110
2030-2034	643,110
2035-2039	643,110
2040-2043	514,488
Total	<u>\$ 3,730,038</u>

NOTE 16 – DEFICIT NET POSITION

The Communications Fund has a deficit balance of \$1,587,084 and \$1,651,894 as of December 31, 2014 and 2013 respectively.

NOTE 17 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description. AMU operates a single-employer retiree benefit plan which provides medical/dental benefits for retirees and their spouses. There are 38 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/dental coverage is administered by Wellmark. Retirees receive 1 year of full health/dental benefits for every 10 years of service to AMU, which results in an explicit subsidy. Retirees under age 65 pay the same premium for the medical/dental benefit as active employees, which results in an implicit subsidy. The explicit and implicit subsidies result in an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by AMU. AMU currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. AMU's annual OPEB cost is calculated based on the annual required contribution (ARC) of AMU, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the AMU's annual OPEB cost for the year ended December 31, 2014 and 2013, the amount actually contributed to the plan and changes in AMU's net OPEB obligation:

	Electric	Water	Communications	Total
Annual required contribution	\$ 37,719	\$ 4,881	\$ 15,554	\$ 58,154
Interest on net OPEB obligation	1,509	195	622	2,326

**ALGONA MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

Adjustment to annual required contribution	-	-	-	-
Annual OPEB cost	39,228	5,076	16,176	60,480
Net OPEB obligation beginning of year	196,642	33,055	72,340	302,127
Net OPEB obligation end of year	235,870	38,131	88,606	362,607

For calculation of the net OPEB obligation, the actuary has set the measurement date as December 31, 2012. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the years ended December 31, 2014 and 2013.

For the years ended December 31, 2014 and 2013, AMU did not contribute to the medical plan.

AMU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the previous three years are as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2014	\$ 60,480	0%	\$ 362,607
December 31, 2013	\$ 60,480	0%	\$ 302,127
December 31, 2012	\$ 60,525	0%	\$ 241,647

Funded Status and Funding Progress. As of December 31, 2012, the most recent actuarial valuation date for the periods from January 1, 2014 through December 31, 2014 and January 1, 2013 through December 31, 2013, the actuarial accrued liability was \$466,935, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$466,935. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2.1 million and the ratio of the UAAL to covered payroll was 23% for 2014 and 2013. As of December 31, 2014 and 2013, there were no trust fund assets.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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NOTES TO FINANCIAL STATEMENTS

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of December 31, 2012 the actuarial measurement date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on AMU's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Combined Mortality Table Fully Generational. Annual retirement and termination probabilities were developed based on national averages.

Projected claim costs of the medical plan are \$628 per month for retirees less than age 65 and \$331 per month for retirees who have attained age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

NOTE 18 – SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through May 19, 2015, the date the financial statements were issued.

Required Supplementary Information

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

**BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS
BUDGET AND ACTUAL - ALL PROPRIETARY FUNDS**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2014

	Proprietary Funds Actual	<u>Budgeted Amounts</u> Original	Final to Net Variance
Receipts:			
Charges for service	\$ 17,259,761	\$ 17,189,000	70,761
Miscellaneous	352,387	493,000	(140,613)
Other financing sources	3,590,000	-	3,590,000
	<u>21,202,148</u>	<u>17,682,000</u>	<u>3,520,148</u>
Disbursements:			
Program			
Business type activities	19,525,415	19,545,400	19,985
Transfers out	512,437	619,200	106,763
	<u>20,037,852</u>	<u>20,164,600</u>	<u>126,748</u>
Change in net assets	1,164,296	(2,482,600)	
Balance beginning of year	<u>5,439,725</u>	<u>15,071,069</u>	
Balance end of year	<u>\$ 6,604,021</u>	<u>\$ 12,588,469</u>	

The budgetary presentation is based on a comprehensive basis of accounting which is different than that used to prepare the financial statements. The reconciliation from accounting principles generally accepted in the United States used for financial reporting and those used to prepare the budget is presented below.

	Financial Statements	Adjustments	Budgeted Basis
Revenues	\$ 17,535,063	\$ 3,667,085	\$ 21,202,148
Disbursements	18,172,098	1,865,754	20,037,852
Other financing sources	-	-	-
Increase (decrease) in net position	<u>\$ (637,035)</u>	<u>\$ 1,801,331</u>	<u>\$ 1,164,296</u>

See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES
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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

YEAR ENDED DECEMBER 31, 2014

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each major Proprietary Fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the all Proprietary Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

ALGONA MUNICIPAL UTILITIES
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SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(In Thousands)

Required Supplementary Information

Year Ended December 31	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
		(a)	(b)	(c)	(a/b)	(c)	(b-a)/c
2014	December 31, 2014	-0-	\$467	\$467	0.00%	\$2,060	22.6%
2013	December 31, 2013	-0-	\$467	\$467	0.00%	\$2,019	23.1%
2012	December 31, 2012	-0-	\$467	\$467	0.00%	\$2,000	23.4%
2011	January 1, 2009	-0-	\$412	\$412	0.00%	\$1,900	21.7%
2010	January 1, 2009	-0-	\$412	\$412	0.00%	\$1,800	22.9%
2009	January 1, 2009	-0-	\$412	\$412	0.00%	\$1,682	24.5%

See Note 17 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and net OPEB Obligation, funded status and funding progress.

Other Information

ALGONA MUNICIPAL UTILITIES

Schedule 1

ELECTRIC DEPARTMENT COMPARATIVE SUMMARIES OF ELECTRICITY DISTRIBUTED AND BILLED YEAR ENDED DECEMBER 31,

	2014	2013	2012
Sale of electricity:			
Sales to consumers	\$ 9,161,643	\$ 8,621,514	\$ 7,914,391
Sales to other utilities	161,555	152,988	137,668
Sales for resale	3,176,653	2,587,362	2,523,878
Total electricity sales	12,499,851	11,361,864	10,575,937
Kilowatt hours:			
Wind generation	5,609,848	5,302,144	4,967,953
Generated	141,643,781	109,354,295	146,943,092
Purchases	52,444,524	69,236,854	47,893,669
System losses (transmission)	(3,453,229)	(3,525,927)	(3,433,574)
Available for sale	196,244,924	180,367,366	196,371,140
Billed to consumers	111,409,291	113,882,975	111,282,762
Sales to other utilities	4,198,333	4,565,363	4,056,330
Sales for resale	75,527,454	57,534,422	76,950,778
Distribution loss	5,109,846	4,384,606	4,081,270
Distribution loss percent	4.23%	3.57%	3.42%
Revenue billed per kWh to consumers	\$ 0.0822	\$ 0.0757	\$ 0.0711
Peak hour demand in kilowatts	22,230	24,440	24,950
Services provided to the City			
Street lighting:			
Energy	\$ 35,791	\$ 35,855	\$ 34,123
Operation and Maintenance	24,516	12,963	11,211
	60,307	48,818	45,334
Other Maintenance Costs	5,489	4,607	3,743
Energy for Public Buildings, Parks and Other uses	125,773	117,132	103,545
	\$ 191,569	\$ 170,557	\$ 152,622
Year to date kWh sales			
Residential	30,213,408	31,286,298	31,256,589
Commercial	81,488,568	82,965,103	80,287,411
Area Lighting	660,114	664,209	639,629
Station Power	1,971,065	1,881,600	1,899,860
City	1,274,469	1,651,128	1,255,603
Total number of kWh sales	115,607,624	118,448,338	115,339,092

Unaudited - See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES

Schedule 2

**WATER DEPARTMENT
COMPARATIVE SUMMARIES OF WATER PUMPED AND BILLED
YEAR ENDED DECEMBER 31,**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total revenue billed	<u>\$ 1,029,162</u>	<u>\$ 1,040,062</u>	<u>\$ 998,132</u>
Cubic Foot			
Pumped	38,001,822	37,757,057	38,618,214
Billed	29,753,067	31,358,210	33,361,070
City of Algona	307,317	323,846	351,675
System loss	7,941,438	6,075,001	4,905,469
Percent loss	20.90%	16.09%	12.70%
Revenue billed per cubic foot	\$ 0.0342	\$ 0.0328	\$ 0.0296
Peak day-cubic footage pumped	176,512	196,631	203,128
Services provided to City			
Water for parks, disposal plant and public buildings	\$ 11,307	\$ 11,862	\$ 11,318
Public fire protection	<u>30,060</u>	<u>29,857</u>	<u>19,690</u>
	<u>\$ 41,367</u>	<u>\$ 41,719</u>	<u>\$ 31,008</u>

Unaudited - See Accompanying Independent Auditor's Report

ALGONA MUNICIPAL UTILITIES

Schedule 3

**COMMUNICATIONS
COMPARATIVE SUMMARIES OF CABLE, INTERNET, AND TELEPHONE
YEAR ENDED DECEMBER 31,**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenue:			
Cable TV	\$ 1,354,062	\$ 1,127,858	\$ 1,123,865
Internet	978,065	869,872	832,871
Telephone	973,814	1,097,994	1,317,666
Cell phone	(15,398)	11,546	66,810
Miscellaneous	<u>84,329</u>	<u>95,850</u>	<u>116,434</u>
Total operating revenue	<u><u>\$ 3,374,872</u></u>	<u><u>\$ 3,203,120</u></u>	<u><u>\$ 3,457,646</u></u>
Customers			
Cable TV	1,785	1,858	1,873
Internet	1,940	1,873	1,836
Telephone	1,400	1,529	1,580
Cell phone	375	446	512
Average monthly revenue per customer			
Cable TV	63.21	50.59	50.00
Internet	42.01	38.70	37.80
Telephone	57.97	59.84	69.50
Services provided to City			
Cable TV	\$ 2,398	\$ 1,786	\$ 1,786
Internet	4,956	4,652	4,470
Telephone	<u>817</u>	<u>931</u>	<u>957</u>
	<u><u>\$ 8,171</u></u>	<u><u>\$ 7,369</u></u>	<u><u>\$ 7,213</u></u>

Unaudited - See Accompanying Independent Auditor's Report



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees of the
Algona Municipal Utilities:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund of Algona Municipal Utilities, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise AMU's basic financial statements, and have issued our report thereon dated May 19, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Algona Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Algona Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Algona Municipal Utilities' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. No material weaknesses in internal control were noted. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Algona Municipal Utilities' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Algona Municipal Utilities' response to Findings

Algona Municipal Utilities' responses to the immaterial instances of non-compliance noted in the preceding paragraph are described in the accompanying schedule of findings and questioned costs. Algona Municipal Utilities' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

JP Anderson & Company, PC

May 19, 2015



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL
AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC UTILITIES**

To the Board of Trustees of the
Algona Municipal Utilities:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of each major fund of Algona Municipal Utilities, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise AMU's basic financial statements, and have issued our report thereon dated May 19, 2015. In accordance with Government Auditing Standards, we have also issued our report dated May 19, 2015, on our consideration of Algona Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements.

In connection with our audit, nothing came to our attention that caused us to believe that Algona Municipal Utilities failed to comply with the terms, covenants, provisions, or conditions of their grant as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as encumbered below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Algona Municipal Utilities' noncompliance with the above referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Algona Municipal Utilities' accounting and records to indicate that Algona Municipal Utilities did not:

- Continue to utilize the Rural Development Grant proceeds to operate a revolving loan program
- Manage, operate and maintain the fund in an efficient and economic manner.
- Maintain at its premises an accounting available for review of the revolving loan fund records, including loans made and payments received on those loans
- Provide Rural Development a Survey of Recipients of Rural Economic Development Loan and Grant Program within the prescribed time frame
- Provide a report to Rural Development regarding loan activity, including a list of the projects funded, the amount financed for each project, the repayment terms, and whether each project financed has been completed within the prescribed time frame

- Continue to have fidelity bond coverage on individuals who have access to the revolving loan program funds

The purpose of this report is intended solely for the information and use of the board of trustees, management, and RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

JP Anderson & Company, PC

May 19, 2015

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

SCHEDULE OF FINDINGS

Part I: Summary of the Independent Auditor's Results

- (a) Unmodified opinions were issued on the financial statements for each major fund.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

MATERIAL WEAKNESSES:

No matters were noted.

Part III: Other Findings Related to Statutory Reporting:

- IV-A-14 Certified Budget - Disbursements for the year ended December 31, 2014 were within the budgeted limits.
- IV-B-14 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-14 Travel Expense – No disbursements of AMU money for travel expenses of spouses of Utility officials or employees were noted.
- IV-D-14 Business Transactions – We noted no transactions conducted with AMU officials.
- IV-E-14 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-14 Board Minutes - No transactions were found that we believe should have been approved in the board minutes but were not.

**ALGONA MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF ALGONA**

SCHEDULE OF FINDINGS

- IV-G-14 Revenue Bonds – No violations of revenue bond covenants were noted.
- IV-H-14 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.
- IV-I-14 Telecommunication Services – No instance of noncompliance with Chapter 388.10 of the Code of Iowa were noted.
- IV-J-14 Financial Condition – The Communications Fund had a deficit fund balance of \$1,587,084 at December 31, 2014.

Recommendation – AMU should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

Response – AMU is and has been conducting rate studies reviewing options to eliminate the deficit.

Conclusion – Response accepted.